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INTELLIGENCE MEMORANDUM

SOVIET ECONOMIC POLICY IN 1955

CIA/RR IM-425

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SOVIET ECONOMIC POLICY IN 1955*

Summary

The major elements of Soviet economic policy in 1955 were a continuation and multiplication of the ambitious agricultural schemes adopted in 1953-54, stress on the predominance of heavy industry and on advanced technology as the basis of further growth of the economy, a slowdown in the advance of living standards, and the emergence of an aggressive foreign trade program aimed at underdeveloped nations. Publication of the Sixth Five Year Plan (1956-60) confirmed these policies as the means chosen to maximize Soviet economic growth during the next 5 years.

The implementation of these policies in agriculture meant the virtual completion of the program to extend wheat cultivation into 30 million hectares** of new land, a substantial start (18 million hectares) on the program which would eventually introduce 28 million hectares of corn in the traditional agricultural areas, the reassignment of the top agricultural administrators in government, the decentralization of agricultural planning, and a considerable strengthening of Party and machine tractor station control over agriculture. It also meant a continuation of the high 1954 level of investment allocations to agriculture and continuing attempts to increase agricultural production incentives.

In general, it appeared that agriculture was the recipient of measures designed to improve the basic organization of production (the crop and land-use pattern, production planning, formal governmental administration, informal Party control, and redefinition of the role of the machine tractor stations), in preparation for the introduction of further measures during the Sixth Five Year Plan which might lead more directly to the higher production levels anticipated for 1960.

* The estimates and conclusions contained in this memorandum represent the best judgment of ORR as of 1 March 1956.

** One hectare is equivalent to 2.47 acres.

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In January 1955 the Soviet press and the official utterances of Party and government indicated clearly that the consumer goods program of 1954, with its emphasis on immediate gains in manufactured consumer goods, was to give way to a "new course" of action. Output of producer goods was now emphasized -- in a new press propaganda campaign, in the 1955 plan fulfillment report, in Khrushchev's preface about producer goods to his January livestock report, and in the 1955 state budget, which featured a reduction of about 12 percent in allocations to light industry.

The "new course" of action which was to be launched in an effort to solve the problems of industry was not set forth in a detailed statement of economic policy until the July 1955 sessions of the Party Central Committee. A number of developments before July, however, had indicated that the new approach would stress improvements in technology, organization, administration, planning, and control rather than directly attempting to raise labor productivity by way of the material incentives route which typified the 1954 consumer goods approach.

The Soviet consumer fared poorly under the operation of the "new course" of action in 1955 compared with the rate of gain in his economic position in 1954, and plans for the consumer over the period of the Sixth Five Year Plan indicate that he will continue to feel the effects of this policy.

The post-Stalin leadership, which before 1955 had made a few overtures toward broadening trade contacts with underdeveloped countries, considerably intensified its efforts in 1955. As a result, the USSR may soon become a net exporter of capital goods -- a possibility which indicates that Soviet economic policy has moved a considerable distance since the Stalin era.

1. Introduction.

Soviet economic policy in 1955 -- the terminal year of the Fifth Five Year Plan period -- continued to reflect the primary concern of Party and government with the two major problems which have obsessed the Soviet leadership since the death of Stalin. These problems are lagging agricultural production and underfulfillment of labor productivity goals. With increasing frequency writers in Soviet journals

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point out the interdependence of these two problems. A major aspect of the labor productivity problem is the maintenance of adequate material incentives, which in turn depends to a great extent on the availability of agricultural raw materials. But the effort to expand agricultural production tends to reduce the flow of labor from rural to urban areas, thereby further increasing the reliance of industry on increased output per worker rather than on a larger number of workers as a means of expanding the volume of production.

Soviet statistics on the rate of growth of labor productivity have understandably given rise to Soviet concern over the difficulty of maintaining a continued high rate of economic growth. In contrast to an annual increase in industrial labor productivity of 12 percent in 1950 and 10 percent in 1951, the annual rate of increase since 1952 has been only about 7 percent, resulting in a cumulative increase of approximately 44 percent for the Five Year Plan period instead of the planned goal of 50 percent.

Continuing Soviet concern about agriculture is similarly justified by the poor performance of this sector. In spite of the effort expended in 1954, in opening up virgin lands to cultivation, the addition to agricultural production in that year was barely more than enough to offset drought losses in other areas. In 1955, sowing goals generally were overfulfilled, and a more rational agricultural land-use pattern was reported to be emerging as a result of changes in planning techniques. But in spite of these signs of progress, production gains were not sufficient to dispel completely the anxieties of the leadership. The increase in corn production, reported to be 3.6 times the 1954 level of 4 million metric tons,* did not keep pace with the increase in land area devoted to corn cultivation, which was over 4 times the 1954 area.** The problem of obtaining higher yields would soon have to be faced. Furthermore, the success in increasing corn production was offset to some extent by a decline in the production of coarse grains other than corn from an estimated 28 million to 25 million tons. Again in 1955, production of bread grains was affected by drought in the "new lands," but with an unusually high yield in the Ukraine, production of bread grains is estimated to have increased from 55 million tons in 1954 to 61 million tons in 1955. The increases in livestock reported

* Tonnages throughout this memorandum are given in metric tons.

** The 1955 corn production includes immature corn harvested as silage but converted to a dry grain equivalent.

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in the 1955 plan fulfillment report (cattle, 3 percent; pigs, 2 percent; and sheep, 6 percent) were impressive only when related to the failures of the past.

Against this background the aim of Soviet economic policy, as expressed in words and deeds throughout 1955, appeared to be the creation of a more favorable environment for the operation of the Sixth Five Year Plan. The consumer goods program of 1954, which succeeded in raising the output of manufactured consumer goods but failed to meet the goals for those consumer goods which depended on agricultural raw materials, gave way in 1955 to a longer range program designed to overcome the agricultural barrier to increased industrial production and to work out the technological and organizational deficiencies in industry.

2. Agriculture.

The guidelines of Soviet agricultural policy in 1955 were set forth in detail in Khrushchev's report in January 1955 on increasing output of livestock products. Khrushchev's report reaffirmed the second-priority position of agriculture in the Soviet scheme of economic development and then proceeded to assign 1960 production goals which would be difficult of achievement even if agriculture were to be elevated to a first-priority position. Realization of the ambitious livestock goals was predicated on the expectation of a considerable increase in grain and fodder production by 1960, which in turn was to be realized through the expansion of the cultivated land area, a great increase in the role of corn relative to other crops, the raising of crop yields per hectare, and the reduction of harvesting losses.

Attempts to implement this policy began in March 1955, when Gosplan and the Ministries of Agriculture and Agricultural Procurement were criticized for unrealistic planning which took inadequate account of local and regional variations in production possibilities. To improve the planning process, collective farms were to be allowed henceforth to construct their own sowing and livestock plans with the aid of the machine tractor stations, and direction from the center was to be limited to the assignment of quotas for the delivery of products to the state. Although this still meant state determination of basic production patterns, greater leeway supposedly was to result from the new planning technique. But even this aspect of planning freedom was circumscribed by the provision for mandatory review of collective farm production plans by a long line of successively higher authorities from the rayon officials of Party and government up to the Ministry of

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Agriculture and Gosplan. The increased transmission of local experience from the collective farm to the center, however, may avoid some of the fiascos which have typified Soviet agricultural planning in the past.*

In the hope of giving the collectivized agricultural sector still another boost, the action to decentralize planning was followed by efforts to strengthen collective farm leadership and to bolster Party control over agricultural activity. Khrushchev announced on 30 March 1955 that some 30,000 collective farm chairmen were to be replaced by workers from the Party, the local governments, and from administrative, engineering, and technical fields. This action was expected to reduce the friction between the collective farm chairman and the Party secretary attached to each collective farm, thereby increasing the effectiveness of Party control and Party participation in agricultural planning. It apparently was considered essential to increase the number of reliable personnel among those who would exercise these broadened powers at the lower operational level.

To facilitate implementation of the production goals demanded by agricultural policy, the top governmental posts in agriculture were reassigned during the year. Kozlov, criticized for his handling of the state farm system, was ousted in March from the post of Minister of State Farms and replaced by Benediktov, who had been Minister of Agriculture. Lobanov, who had been Deputy Minister of Agriculture and experienced in handling collective farm affairs, was elevated to the newly created post of Deputy Chairman of the Council of Ministers in charge of agriculture -- an action consistent with the trend since 1953 of expanding the number of deputy chairmen who, without specific ministerial portfolios, are free to concentrate their attention on problems embracing entire sectors of the economy. Matskevich, formerly a Deputy Minister of Agriculture, was appointed Minister of Agriculture in October, completing the 1955 shakeup in agricultural leadership.

* An article in Pravda of 4 October 1955 indicated that the new system of agricultural planning had already resulted in major changes in the use of land on both a nationwide and a republic scale. For example, planting of winter wheat on collective farms in the Ukraine in 1955 was 126 percent of the 1954 area, whereas the area planted to spring wheat was only 27 percent of the 1954 area. Similar changes, although not so dramatic, were reported to have occurred in other republics.

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The "new lands" policy and the corn expansion program were pursued unabatedly in 1955, with success in area, but unfavorable weather caused low yields. The 1956 budget message indicates that the plan to bring under cultivation 28 million hectares of new land in 1954 and 1955 was fulfilled, increasing the cultivated area from 156 million hectares in 1953 to 184 million hectares in 1955. The plan for sowing 16 million hectares of corn in 1955 was overfulfilled by nearly 2 million hectares, raising the total area sown to corn to over 4 times the 1954 level and bringing the corn program well on its way toward the final goal of 28 million hectares.

Measures taken by the state to implement these programs included (a) the allocation of 11 billion rubles for the development of new lands, of a total of 55.1 billion rubles allocated to agriculture by the state in the 1955 budget; (b) the separation of tractor and agricultural machine building from automotive machine building in July in a move to overcome what Bulganin expressed as "exceptional sluggishness" in advancing the mechanization of agriculture; and (c) the issuance of a decree in May which provided substantial material incentives for engaging in corn production. The May decree promised payment of 15 percent of the harvested corn crop to collective farmers and machine tractor station workers in addition to their regular work day compensation, regardless of the extent of fulfillment of obligations to the state. This departure from past practices governing the distribution of incentive payments was indicative of the determination of the state to carry out its agricultural policy.

Continuation of the agricultural program launched in 1954 was evident in the state allocation of 55.1 billion rubles to agriculture in the 1955 budget. This amount, which was exclusive of allocations for state procurement of agricultural products, represented a slight increase over the 1954 state allocation of 62.5 billion rubles to agriculture, because the latter included an estimated 10.5 billion rubles for procurement activities. In contrast to the 1955 increase over 1954, the planned 1956 budget allocation to agriculture of 48.6 billion rubles represents a reduction of 6.5 billion rubles from the planned 1955 level. It is not clearly evident, however, that this indicates a significant change in agricultural policy, as the bulk of the cut is in the relatively minor category Other. The two major categories -- Allocation to Machine Tractor Stations and Allocation to State Farms -- together accounting for 40.7 billion rubles of the 48.6-billion-ruble total allocation, remained at virtually the same level as in 1955. Furthermore, total investment planned for agriculture

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in 1956 by the state from the budget and by collective and state farms from their own funds was announced by Zverev in the 1956 budget message to be 21.3 billion rubles -- a continuation of the high level of investment prevailing since the start of the new agricultural program in 1954, when planned investment in agriculture was increased to 21 billion rubles from the 1953 level of 12 billion.

The determination of the state to eliminate budget subsidies to state farms (whose costs were still exceeding revenues in spite of the 1954 increase in prices of agricultural products) was again evidenced in December 1955 when action was taken to raise labor productivity. The Ministry of State Farms announced plans to increase the average wage of state farm workers by approximately 5 percent while revising upward by 15 to 25 percent the existing outmoded work norms. Matskevich, the new Minister of Agriculture, has indicated that work norms of collective farm members, which had been increased in 1954 as a result of the new system of determining obligatory work days, also will be revised during the winter of 1955-56, although no details were offered as to the extent of the planned revision.

3. Industry.

The traditional Soviet economic policy of preferential treatment to heavy industry -- actually lessened only to a small degree during the brief interlude of the consumer goods program of 1953-54 but obscured to a greater degree by official propaganda -- was strongly reaffirmed in the first months of 1955. First came the press campaign in December 1954 which culminated in the 24 January 1955 editorial by Shepilov, editor of Pravda, censuring the "heretical" group of Soviet economists who had mistaken the heightened emphasis on consumer-oriented industry in 1953 and 1954 as an officially approved trend toward the reversal of the "basic economic law of socialism." Then the 1954 plan fulfillment report, published on 21 January 1955, laid little stress on the consumer goods aspect of Soviet industry, and Khrushchev prefaced his 25 January 1955 livestock report with a lengthy comment on the necessity for an uninterrupted emphasis on output of producer goods.

The 1955 budget, presented by Zverev on 3 February 1955, put meaning into these words. Budget and nonbudget allocations to heavy industry, although rendered unclear by what appeared to be a transfer of some expenditures from the budget subcategory Other to the subcategory Heavy Industry (both within the category Financing the National Economy), were estimated to be at least as large as in 1954. On the other hand, budget

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and nonbudget allocations to light industry were planned to be about 12 percent below the level planned for 1954. Zverev's observation that State Bank credit was available for the further expansion of light industry proved to be an inadequate substitute for budget allocations. Production achievements in 1955 bear testimony to the emptiness of Zverev's gesture. Production in light industry increased only 8 percent over the previous year, according to Soviet statistics, in contrast to an average annual increase of about 13 percent during the first 4 years of the Fifth Five Year Plan. Heavy industrial production, on the other hand, increased by more than 14 percent over the 1954 level -- a rate slightly higher than the average annual increase of 13.7 percent over the preceding 4-year period.

Following the presentation of the budget, a sequence of events gave further indication of the orientation of Soviet economic policy toward industry -- the resignation of Malenkov on 8 February and the installation of Bulganin as Chairman of the Council of Ministers; the elevation of Mikoyan, Pervukhin, and Saburov in late February to the rank of First Deputy Chairmen of the Council of Ministers and the expansion of the supraministerial group by the addition of four new deputy chairmen; the separation of long-term economic planning from short-term annual planning by the creation in May of the State Economic Commission for Short-Term Planning; and the creation of two new special problem committees, one for the introduction of new technology and one for the study of labor and wage problems. All of these actions appeared to be, at least in part, attempts to secure a more effective transmission of economic policy from the Party to the producing ministries, thereby clearing the way for the implementation of the corrective measures which were to be outlined at the July Plenum of the Party Central Committee.

This sequence of events and further actions which followed the July meetings of the Party Central Committee lent credence to the program of corrective measures outlined by Bulganin on 4 July, which, taken by itself, sounded conspicuously like the familiar Party exhortations long extant in Soviet political and economic literature. Bulganin's call for a sharp rise in the pace of technical improvement in all branches of industry was given substance in the form of the newly created Gostekhnika (State Committee on Technology). The resolution to increase production and to lower costs by increasing the degree of specialization of production in industry was assigned as a major responsibility to the newly created Gosekonomkomissiya (State Economic Commission), which was to devote more time to attaining the additional short-term planning precision needed to coordinate the greater interchange of products arising from greater specialization.

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The exhortation to raise labor productivity to a new high level, repeated countless times since the days of Lenin and again by Bulganin in July, was now backed up by Kaganovich's Committee on Labor and Wages, which showed promise of bringing about a much needed general revision of work norms and wage rates. The first work of the committee appeared in the new work norms and wage system announced in October, to go into effect 1 January 1956, in the construction industry. This industry, afflicted with one of the poorest labor productivity records in the economy, was put on notice of the impending reform as early as 7 December 1954 by Khrushchev at the All-Union Building Conference.

Bulganin also indicated at the July Plenum the firm intention of the state to continue to decentralize the economic administrative apparatus and to delegate greater economic responsibility to regional and local authorities. Action in support of this policy in 1955 was unimpressive compared with that of 1953-54, when important ministries in metallurgy and fuels were changed from All-Union to union-republic status, many small enterprises in other fields were placed under republic jurisdiction, economic reporting requirements were relaxed, the list of centrally allocated items was reduced, and the enterprise plan was shortened. The creation in 1955 of a new construction ministry for the coal industry, the splitting of the consumer goods ministry into a ministry for textiles and a ministry for light industry, the separation of automotive machine building from tractor and agricultural machine building, and the conversion of the Ministry of Paper and Wood Processing Industry from All-Union to union-republic status indicated that the state was, in fact, still endeavoring to increase production by improving the economic administrative structure.

The various institutional changes of 1953 and 1954 introduced a more favorable climate for the eventual attainment of the Party's economic goals, but they obviously did not offer a dramatic solution of the Party's economic problems. The 1955 plan fulfillment report, published on 29 January 1956, announced the overfulfillment of the plan for gross industrial output by 3 percent, but the plan goals were modest compared with those of previous years. The degree of fulfillment, as in past years, was considerably uneven, with a number of important industries and major commodities falling short of planned production goals, and slow progress was reported in the introduction of new technology and automation. A new move to hasten the automation program was taken on 21 January 1956 when the Ministry of Machine and Instrument Building was split into the Ministry of Machine Building and the Ministry of Apparatus Building and Means of Automation.

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The state budget both in 1955 and 1956 gave further evidence of the relative positions occupied by heavy and light industry in Soviet economic policy. In both years it was planned that heavy industry would receive 86 percent, and light industry 14 percent, of total allocations to industry, in contrast to 1954, when heavy industry's share was reduced to 81 percent in deference to the consumer goods program. Similarly, heavy industry's share of the total capital investment in industry, which had been reduced to 86 percent during the 1954 consumer goods program, was raised to 92.5 percent in the 1956 plan for capital investment.

The favorable environment provided to heavy industry by Soviet economic policy was especially noticeable in the 1955 plan fulfillment report. Although production of some important industrial commodities failed to meet planned goals, the rates of increase in the production of many major producer goods (including pig iron, steel, coal, petroleum, electric power, and mineral fertilizers) exceeded their 1954 rates of growth. By contrast, the rates of increase in the production of nearly all of the important foodstuffs and manufactured consumer goods were either less than, or at best only equal to, the 1954 rates of increase.

4. The Soviet Consumer.

Soviet economic policy in 1955 and thus far in 1956 has held little appeal for the consumer. Although the consumer might not have believed that the consumer goods program of late 1953 and 1954 could continue forever unabated, the abruptness of the change which became apparent early in 1955 was probably dismaying. The expected annual reduction in consumer goods prices did not occur. The boon to disposable income in 1953 and 1954 resulting from the relatively small size of the annual compulsory state loan was no longer to be enjoyed. In 1955 the consumer had to subscribe to a state loan of 32 Billion rubles -- double that of 1954 and the largest since World War II. Furthermore, the sum total of prizes to be awarded over the life of the 1955 loan was to be roughly equivalent to about 2 percent of the face value of the total loan, in contrast to about 3 percent on the 1953 and 1954 loans and about 4 percent on loans before 1953.

Events of the first 2 months of 1956 have offered little hope of betterment of the Soviet consumer's lot from either a reduction in prices of consumer goods or a reduction in the compulsory state loan. The 1956 state loan is to be at about the same high level of 1955 and again there

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is no indication of a general reduction in prices of consumer goods. In fact, a number of instances of unpublicized upgrading and raising of prices of food products in state stores have been observed.

The reported overfulfillment of the 1955 plan for retail trade turnover in state and cooperative stores was of limited benefit to the consumer in the light of the modest goals planned for this sector in 1955 as compared with those of the previous year. The actual increase in the volume of state and cooperative trade in 1955 -- the smallest increase in the postwar period -- was only 5 percent over the 1954 level in contrast to an increase of 18 percent in 1954 over the 1953 level. The high rate of increase in retail trade turnover in 1954, achieved in part through the short-lived expedient of reducing inventories and stockpiles, could not be maintained by current production alone in 1955, especially since Soviet economic policy permitted only an 8-percent production increase in light industry as compared with a 12-percent increase in 1954.

In spite of the unfavorable developments of 1955 and early 1956 from the point of view of the consumer, some solace was offered to consumers by the Sixth Five Year Plan promise of a gradual improvement in real incomes. But even here the continuing orientation of Soviet economic policy toward heavy industry was apparent. Real income of "workers and employees" was to increase 30 percent and collective farmers' income in cash and kind was to increase 40 percent during the course of the Sixth Five Year Plan. These planned rates of increase were lower than the rates achieved during the Fifth Five Year Plan, which, according to Soviet statistics, amounted to 39 percent for workers and employees and 50 percent for collective farmers.

The rural population of the USSR, which experienced a more rapid rise in income than the urban population during the Fifth Five Year Plan period, was promised the same treatment during the Sixth Five Year Plan period, even though at lower rates. This development has resulted largely from the policy of increasing agricultural procurement and voluntary delivery prices on several occasions since 1953 in an effort to increase both total agricultural production and the portion of production channeled into urban markets. A substantial increase in grain procurement prices for the 1955 harvest and an increase in potato and vegetable procurement and voluntary delivery prices on 30 January 1956 indicate a continuation of this policy.

The Sixth Five Year Plan revealed that the lower rate of increase in consumer goods production in 1955 -- too low to fulfill the original consumer goods goals of the "new course" -- might be expected to continue:

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The majority of the 1960 production goals for nonfood consumer goods announced in the Sixth Five Year Plan indicate planned growth rates lower than those achieved during the Fifth Five Year Plan. Furthermore, the realization of these less ambitious goals is to depend to a lesser extent on new capital investment and to a greater extent on less certain factors such as improved utilization of existing plant facilities and more efficient management of production operations.

5. Foreign Trade.

Foreign trade between the USSR and the Free World, long a victim of Marxist-Leninist-Stalinist economic doctrine, has been affected noticeably since 1953 by the economic policies of the new leadership. Apparently doomed before the death of Stalin to a permanent pattern of raw material exporting and capital goods importing, Soviet non-Bloc foreign trade is now moving toward the reverse pattern of capital goods exporting and raw material importing.

As a result of this new trend, the USSR in 1954 became a net importer of food products from the Free World for the first time in the postwar period. The trend was accelerated in 1955 by a series of attempts to promote economic and political relationships with the underdeveloped countries of Asia, Africa, and Latin America. These attempts, which took several forms, included (a) increased participation in international trade fairs; (b) a number of agreements with underdeveloped countries calling for Soviet acceptance of surpluses of food and raw material in exchange for capital goods, technical assistance, and complete industrial installations; and (c) the offering of long-term, low-interest-bearing credits amounting to about US \$770 million, of which US \$430 million has been accepted. In order to coordinate these various measures and to develop further foreign trade contacts, it is probable that the USSR, in the latter part of 1955, separated the Main Administration of Economic Relations from the Ministry of Foreign Trade and attached it directly to the Council of Ministers.

If the USSR continues its present aggressive foreign trade policy, it may become a net exporter of capital goods -- a position which could materially enhance its prestige in the struggle to influence the political alignment of economically underdeveloped non-Bloc countries.

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